

**LOGAN COUNTY
SCHOOL DISTRICT**

FINANCIAL STATEMENTS

June 30, 2003

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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Logan County School District
Russellville, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the **Logan County School District** (the "District") as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements*, and Appendix III of the *Independent Auditors' Contract—Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2 of the basic financial statements, the District has implemented a new financial reporting model, as required by the provisions of Governmental Accounting

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Standards Board Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—For State and Local Governments*, Statement No. 37, *Basic Financial Statements—and Management’s Discussion and Analysis—For State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures* and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* as of July 1, 2002. This results in a change in the format and content of the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated October 13, 2003 on our consideration of **Logan County School District’s** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management’s discussion and analysis and budgetary comparison information on pages 5 through 17 and 60 through 61 are not a required part of the basic financial statements but are supplementary information required by *Governmental Accounting Standards*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Logan County School District’s** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The additional information shown on pages 63

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Members of the Board of Education
Logan County School District

through 71 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Holland CPAs, PSC

Bowling Green, Kentucky
October 13, 2003

Required Supplementary
Information

Logan County School District

Russellville, Kentucky

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2003

This discussion and analysis of the Logan County School District (the District) is offered by management as a narrative overview of the financial activities of the District for the fiscal year ended June 30, 2003. Readers are encouraged to consider this information in conjunction with the District's financial statements, notes to financial statements, and additional information contained within the body of the audit.

FINANCIAL HIGHLIGHTS

- Total government-wide net assets increased 9% for the fiscal year ended June 30, 2003. Total long-term obligations decreased \$1,259,457, while the fund balance of all governmental funds increased \$761,064.
- Total expenses related to governmental activities were \$22,140,325, of which \$5,460,523 was offset by operating and capital grants and contributions. General revenues (mainly property taxes, utility taxes, and funding from the state) provided for the balance of the expenditures.
- Only \$208,532 were expended on construction for facility improvement during the year, however, plans are under way for possible construction of over \$4.2 million beginning in the coming year, dependent upon adequate state funding of the District's regular operating activities. Construction and renovations are performed consistent with the District's long-range facilities plan approved by the Kentucky Department of Education.
- The District advance refunded \$1,800,000 of general obligation bonds with interest rates ranging from 5.10% to 5.125% by issuing new bonds with interest rates ranging from 1.50% to 3.65%. This will result in a savings of debt service payments over the next ten years of \$136,149.
- The financial statements reflect a total of \$3,000,672 of revenues and aid from the state for payments made by the state on-behalf of district employees for retirement contributions and health insurance. These payments have not previously been reflected in the financial statements of the district. A like amount of expenses are also recorded in the financial statements.
- Investment earnings decreased 50% due to declining interest rates.



OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three components — management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include government-wide financial statements and fund financial statements, which reflect different perspectives of the District's financial operations.

The government-wide financial statements consist of two statements: *Statement of Net Assets*; and, *Statement of Activities*. These statements provide both short-term and long-term information about the District's overall financial status.

The remaining statements are fund financial statements that focus on individual funds of the District, reporting the District's operations in more detail than the government-wide statements. The governmental funds statements reflect how operations were financed in the short term as well as what remains for future spending. The proprietary funds statements show short-term and long-term financial information about the activity the District operates like a business (food service). Fiduciary funds statements provide information on financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that provide more detailed data and explain some of the information in the basic financial statements. Following the statements is *Required Supplementary Information* that further supports the financial statements with a comparison of the District's budget for the year.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Government-wide statements have not been required or provided in the past. The government-wide statements report information about the District as a whole using the accrual basis of accounting similar to that which is used by private-sector businesses. The *Statement of Net Assets* includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the *Statement of Activities*, regardless of when cash is received or disbursed.

The two government-wide statements report the District's net assets — the difference between the District's total assets and total liabilities, and how they have changed. Increases or decreases in net assets over time may be an indicator of the District's financial position. One must consider, however, additional factors in assessing the overall financial position of the District such as Kentucky's funding from the state's general budget, the District's local tax base, educational programs and expenditures required by law regardless of funding, and other factors.

Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003



The District's activities are divided into two categories in the government-wide financial statements:

- **Governmental Activities** — Most of the District's services are included here such as instruction, student and administrative support, operation and maintenance of facilities, and pupil transportation. Capital assets and long-term obligations are also included. Locally assessed taxes and intergovernmental revenues principally support these governmental activities.
- **Business-Type Activities** — These activities are partially funded by charges for the goods and services provided. The District's food service is reported as a business-type activity. Food service is also partially funded by federal and state grants.

The most striking difference between the District and a private-sector company is the source of revenues. Unlike most private-sector businesses, the assets of the District exist to provide services to students and do not generate revenue. The major revenue sources include Kentucky's Seek Excellence in Education Funding (SEEK), the state's school funding formula appropriated from its biennial general budget, and locally assessed taxes. Current and future operations, including the payment of related debt on capital assets, are dependent upon these funding sources continuing at adequate levels.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information regarding the District's accounting funds as opposed to the District as a whole, focusing on the District's major funds. A fund is a grouping of related accounts used to segregate sources of funding and spending on particular programs or activities. The District's funds are mandated by the state as part of a statewide uniform system of accounting for school districts to ensure compliance with finance and legal requirements. The District's major funds are the General Fund and Special Revenue Fund. The District has three types of funds:

Governmental Funds – Most of the District's services and activities are included in governmental funds which focus on cash inflows and outflows and the balances remaining at year-end that are available for future spending. The modified accrual method of accounting is used to report these funds, which measures cash and financial assets that can be readily converted to cash. Therefore, the governmental funds statements provide a detailed short-term view to help indicate the financial resources available to finance the District's programs in the near future. Since the governmental funds statements do not encompass the additional long-term focus of the government-wide statements, a reconciliation of the differences is provided in the financial statements.

Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003



Proprietary Funds – The District's only proprietary fund is food service. The proprietary fund statements are the same as the business-type activities in the government-wide statements, but provide more detail and additional information, such as cash flows.

Fiduciary Funds – The District is fiduciary for assets that belong to others and is responsible for ensuring that assets reported in the fiduciary funds are used only for their intended purposes. The District's fiduciary funds consist of student activities funds and the scholarship fund. These funds are excluded from the government-wide financial statements because the assets cannot be used to finance the operations of the District.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets. Net assets of governmental activities and business-type activities both increased 9%. Total long-term obligations decreased \$1,259,457 while assets other than capital assets increased \$991,152. Unrestricted net assets increased \$674,372, \$143,162 of which was from business-type activities. The District's largest asset is its investment in capital assets, constituting 64% of total assets. Capital assets, net of its related debt, is 54% of net assets. Long-term obligations make up 93% of the total liabilities.

Following is a summary of the District's government-wide net assets for the fiscal years ended June 30, 2002 and 2003:

Net Assets for the Fiscal Years Ended June 30,

	Governmental Activities		Business-Type Activities		District Total	
	2002	2003	2002	2003	2002	2003
Current and other assets	\$10,769,185	\$11,617,500	\$ 394,708	\$ 537,545	\$11,163,893	\$12,155,045
Capital assets	25,891,582	25,562,548	805,351	766,461	26,696,933	26,329,009
Total assets	36,660,767	37,180,048	1,200,059	1,304,006	37,860,826	38,484,054
Long-term obligations	16,342,851	15,070,526	-0-	12,868	16,342,851	15,083,394
Other liabilities	1,079,529	1,138,701	20,256	7,063	1,099,785	1,145,764
Total liabilities	17,422,380	16,209,227	20,256	19,931	17,442,636	16,229,158
Net assets						
Invested in capital assets, net of related debt	10,345,932	11,286,371	805,351	766,461	11,151,283	12,052,832
Restricted	895,492	1,156,277	-0-	-0-	895,492	1,156,277
Unrestricted	7,996,963	8,528,173	374,452	517,614	8,371,415	9,045,787
Total net assets	\$19,238,387	\$20,970,821	\$1,179,803	\$1,284,075	\$20,418,190	\$22,254,896

Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003



Changes in net assets. The District's governmental activities net assets increased by \$1,732,434 and business-type assets increased \$104,272. The increase in business-type assets (food service) resulted primarily from increased federal grants for higher participation of students receiving free and reduced-price meals.

The increase in governmental activities net assets is a result of numerous factors. The Kentucky School Facilities Construction Commission (SFCC) makes direct payments of principal and interest on District bonds issued for construction of facilities. The bonds payable are included in the long-term obligations of the District and the payments are recorded as revenue from the state. The resultant increase in net assets from the direct payment of principal by the SFCC was in excess of \$750,000. State aid for construction and facilities, also partially used to pay bond principal and interest, increased approximately \$150,000 for the year.

Following is a summary schedule of changes in the District's net assets for the year ended June 30, 2003 (Since this is the first year the District has prepared government-wide financial statements, comparisons are not available. Comparative changes in net assets will be provided in subsequent years):

Changes in Net Assets for the Fiscal Year Ended June 30, 2003

	Governmental Activities	Business-Type Activities	District Total
Revenues			
Program revenues			
Charges for services	\$ 14,620	\$ 643,520	\$ 658,140
Operating grants & contributions	3,683,954	845,426	4,529,380
Capital grants and contributions	1,776,569		1,776,569
General revenues			
Locally assessed taxes	4,233,113		4,233,113
Investment earnings	367,007	11,747	378,754
State aid	13,771,572		13,771,572
Other revenue	25,924		25,924
Total revenues	23,872,759	1,500,693	25,373,452
Expenses			
Instruction	14,804,720		14,804,720
Student and instructional staff support	1,471,931		1,471,931
School administration	939,508		939,508
District administration, business, and personnel support	658,771		658,771
Plant operation and maintenance	1,850,549		1,850,549
Pupil transportation	1,495,321		1,495,321
Interest on long-term debt	694,812		694,812
Food service		1,396,421	1,396,421
Other	224,713		224,713
Total expenses	22,140,325	1,396,421	23,536,746
Increase in net assets	\$ 1,732,434	\$ 104,272	\$ 1,836,706

Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003



Locally generated revenues remained flat for the year with the increase in locally assessed taxes being offset by the decrease in interest income generated. Locally generated revenues account for 19% of total revenues. General revenue state aid was 58% of total revenues. State SEEK funds received increased approximately \$890,000 due to increased enrollment and assistance in funding state mandated salary increases.

Direct instruction expenses were 67% of total expenses, with student support, staff support, and school administration making up another 11%. District administration, business support, and personnel support accounted for only 3% of total expenses. Operation and maintenance of facilities was 8% of total expenses, while pupil transportation was 7% of the total.

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

As noted previously, the General Fund and Special Revenue Fund are the District's major funds. The Other Governmental Funds reflected in the financial statements consist of: the SEEK Fund, also known as the Capital Outlay Fund; the FSPK Fund, also known as the Building Fund; the Construction Fund; and, the Debt Service Fund.

The District's only proprietary fund is food service which is funded by sales and operating grants, mainly federal grants for students qualifying for free or reduced-priced meals. The District has two fiduciary funds. The Student Activity Fund is used to account for monies held for student groups. The Scholarship Fund resources can only be used to fund continuing education scholarships for graduating seniors and is funded totally by contributions and investment earnings.

The main sources of the General Fund's revenues are state aid in the form of SEEK allocations and locally assessed taxes. The majority of the District's activities are accounted for in the General Fund. The Special Revenue Fund consists of grant revenues, mostly state funds and federal funds administered through the state, and expenditures of those grants for specific programs in accordance with the grants' guidelines.

The SEEK Capital Outlay Fund's revenues are derived from state SEEK allocations based upon student enrollment. The FSPK Building Fund's revenues are produced by a five-cent special property tax assessment and matching state funds. The use of both funds resources is generally restricted to facilities acquisition or improvement and payment of the related debt on facilities. The Construction Fund is used to account for facility construction and improvement projects funded by other funds or borrowing. These three funds were shown on prior years' financial statements grouped as Capital Projects Funds.

Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003



The Debt Service Fund is used to account for all activities related to long-term bond obligations. Revenues are transfers from other funds, mainly the SEEK Capital Outlay Fund and FSPK Building Fund, and state aid from Kentucky's SFCC. The revenues are used to make payments on the long-term obligations and related expenditures.

Following is a summary of fund balances for the fiscal years ended June 30, 2002 and 2003:

Governmental Funds Balances as of June 30, 2002 and 2003

	FYE 2002	FYE 2003	Increase (Decrease)
Governmental Funds			
General Fund	\$8,552,346	\$9,252,091	\$699,745
Special Revenue Fund	224,804	42,352	(182,452)
Other governmental funds			
SEEK Capital Outlay Fund	177,619	155,188	(22,431)
FSPK Building Fund	591,362	607,798	16,436
Construction Fund	122,300	373,536	251,236
Debt Service Fund	21,225	19,755	(1,470)
Total governmental funds	\$9,689,656	\$10,450,720	\$761,064
 Proprietary Fund (Food Service Fund)	 \$1,179,803	 \$1,284,075	 \$104,272
 Fiduciary Funds			
Scholarship Fund	\$57,439	\$83,663	\$26,224
School Activity Funds	-0-	-0-	-0-
Total Fiduciary Funds	\$57,439	\$83,663	\$26,224

The increase in food service's net asset fund balance resulted primarily from increased federal grants for higher participation of students receiving free and reduced-price meals while maintaining costs on those additional meals at an acceptable level. The Student Activity Funds show no fund balance because all monies in the funds are held for, and are due to, student groups. The Scholarship Fund's balance increased with contributions into the fund while investment earnings approximated scholarships awarded.

The Debt Service Fund is a required conduit for payment of long-term obligations and consequently the balance changed only a minor amount. The Construction Fund's balance increased because of transfers into the fund for specific construction projects in progress not yet being expended. The entire balances of the SEEK Capital Outlay Fund and FSPK Building Fund are restricted for use on facilities construction projects as required for participation of the SFCC in funding future debt service for those projects.

Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003

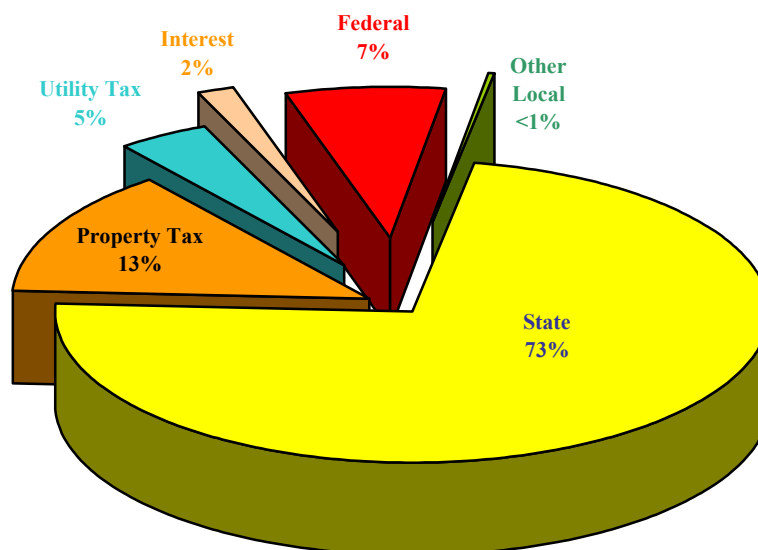


The Special Revenue Fund's balance will inherently fluctuate annually. Grants are obtained for specified purposes and the balance of the fund will change dependent upon when the grant funds are received and disbursed.

The General Fund's balance increased approximately 7.8%. The statements reflect an increase in General Fund revenues of \$3,424,046 over the prior year. \$2,550,588 of this increase is due to recording revenues for state payments on-behalf of District employees for retirement and health benefits. As mention earlier, these on-behalf payments have not previously been recorded and expenditures in like amounts have also been recorded. Locally generated revenues remained consistent with increases in taxes, mostly utility taxes, making up for a 50% decrease in investment earnings from decreased interest rates. State SEEK allocations increased \$889,959, of which \$263,734 was from increased enrollment. The balance of the increase was to fund state mandated salary increases, but fell short of total salary increases by in excess of \$141,000.

The following graphs indicate the relationship of types of revenues to total revenues of Total Governmental Funds for the fiscal years ended June 30, 2003 and 2002:

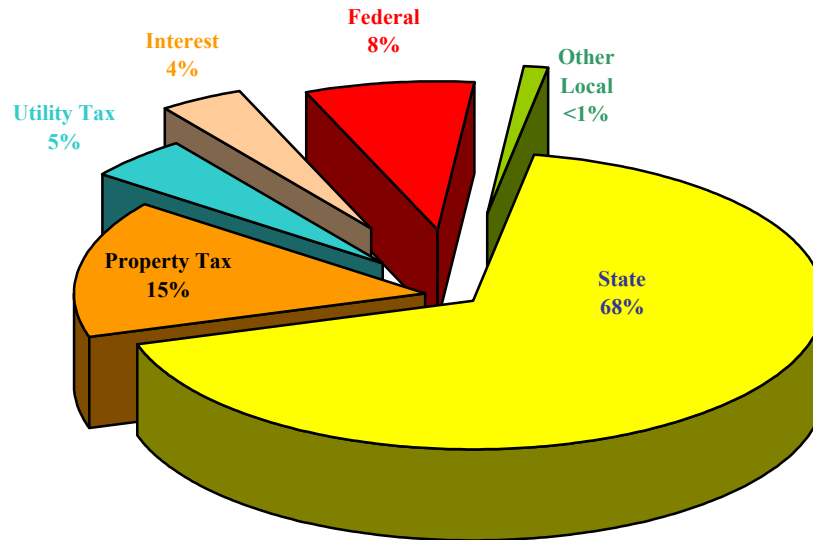
Total Governmental Funds Revenues for the Fiscal Year Ended June 30, 2003



Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003



Total Governmental Funds Revenues for the Fiscal Year Ended June 30, 2002



The District continues to find economies in operations wherever possible. The fiscal year began with the state having no general budget, which made state funding amounts and timing of funding in question. Monies accumulated specifically for instructional programs over and above regular instruction and future construction projects were held in fear that they may be needed to fund the basic day-to-day operations of the district. The District's expenditures for construction projects was only \$208,532 for the current year, while \$3,657,186 was expended in the prior year.

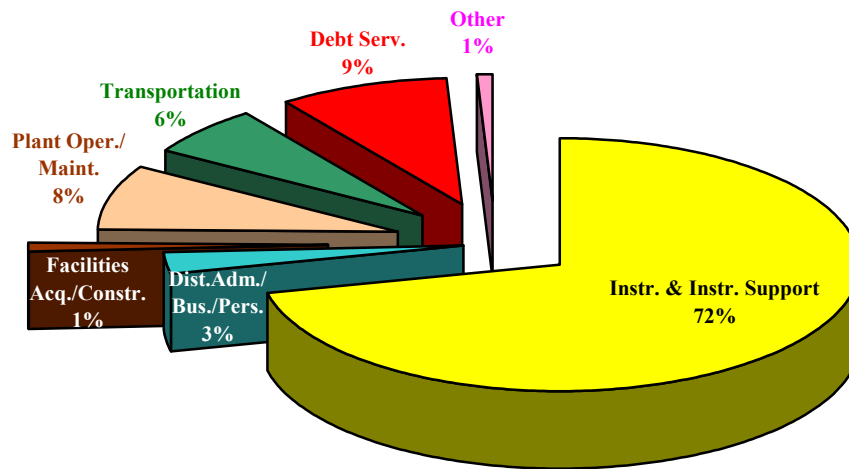
As noted above, the expenditures include state payments on-behalf of District employees for retirement and health benefits making some categories of expenditures appear considerably higher than the prior year. The most significant increase in operating expenditures was for instruction and instructional support. This increase is due to increased salaries, increased services delivered to students for special instructional programs, and increased enrollment. The only other major operating expenditure increase was for student transportation. This was mainly due to funds not being available from the Special Revenue Fund to pay for special education transportation because of state funding cuts, and increased equipment purchases.

Following are graphs indicating the relationship of types of expenditures to total expenditures of Total Governmental Funds for the fiscal years ended June 30, 2003 and 2002:

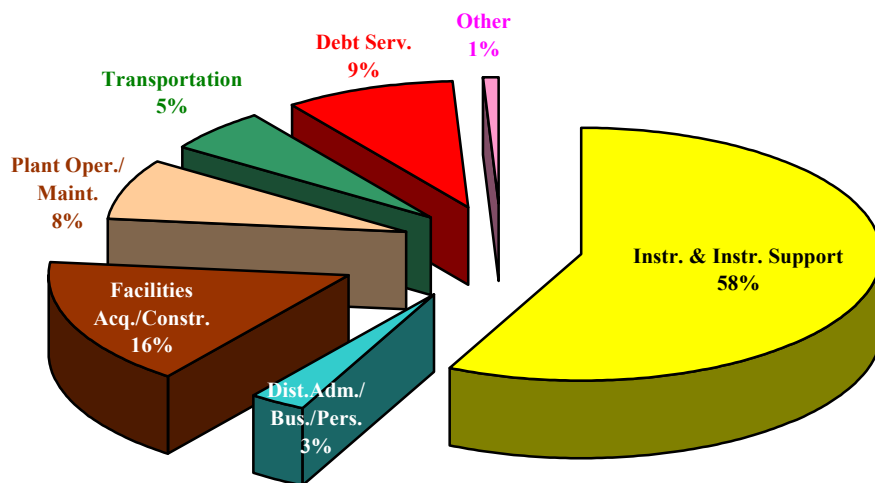
Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003



Total Governmental Funds Expenditures for the Fiscal Year Ended June 30, 2003



Total Governmental Funds Expenditures for the Fiscal Year Ended June 30, 2002





GENERAL FUND BUDGETARY HIGHLIGHTS

In accordance with directives from the Kentucky Department of Education (DOE) and Kentucky law, the District's funds budgets are prepared to account for most transactions on a cash receipt / cash disbursement / encumbrance basis. The DOE requires a budget in which any budgeted remaining fund balance is shown as a contingency expense and any amounts being accumulated for other purposes ultimately shown as unspent or over-budgeted expenditures. Over the course of the year, the District revises the annual operating budget as circumstances dictate or as required by the DOE. The major change from the original General Fund budget to the final budget resulted from changes in SEEK funding estimates from the state.

As noted on the *Budgetary Comparison Schedule for the General Fund* contained in the *Required Supplemental Information*, the budget did not include \$2,550,588 of state payments on-behalf of District employees for retirement and health benefits. These payments are reflected in the GAAP basis actual amounts as state program revenues and in each type of expenditure in relation to wages paid, with the major portion contained in instructional expenditures. Local revenues are budgeted conservatively and utility taxes generated more revenues than expected resulting in a favorable variance of local revenues for the year.

District administration expenses show a large surplus of budget above actual expenditures. The budgeted contingency, as described above, constitutes the largest amount of that variance. Student transportation reflects a deficit due to funds not being available from the Special Revenue Fund to pay for special education transportation because of state funding cuts. Facilities acquisition and construction shows a large surplus because of funds being accumulated for future construction projects not yet being expended. Budgeted debt service is shown in the GAAP actual amounts as a fund transfers. Favorable variances in instructional staff support, business support, and plant operations and maintenance result from budgeted expenditures being postponed due to state budget constraints and from energy cost increases not being as much as expected.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. At June 30, 2003, the District had \$26,329,009 invested in capital assets net of depreciation: historical cost totaled \$38,168,818 with accumulated depreciation totaling \$11,839,809. These assets include school, athletic, and support facilities, as well as technology, food service, and other equipment. There were no major facility acquisitions or construction during the year. Plans are underway for possible construction projects of up to \$4.2 million beginning next year for school and auxiliary facilities, dependent upon adequate state funding of the District's regular operating activities. Depreciation charged to expense during the year totaled \$1,319,262, the majority of which was charged to governmental functions. More detailed information relating to capital assets may be found in Note 5 to the financial statements.

Logan County School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003



Following is a summary of capital assets, net of depreciation, for the fiscal years ended June 30, 2002 and 2003:

Net Capital Assets for the Fiscal Years Ended June 30, 2002 and 2003

	Governmental Activities		Business-Type Activities		District Total	
	2002	2003	2002	2003	2002	2003
Land	\$ 481,399	\$ 481,399			\$ 481,399	\$ 481,399
Land Improvements	328,657	342,855			328,657	342,855
Building and Improvements	23,064,162	22,560,289	\$608,645	\$592,791	23,672,807	23,153,080
Construction in Progress	-0-	112,989			-0-	112,989
Technology Equipment	861,581	849,145	4,205	2,784	865,786	851,929
Transportation Equipment	969,846	921,792			969,846	921,792
Other equipment and furniture	185,937	294,079	192,501	170,886	378,438	464,965
Total Assets	\$25,891,582	\$25,562,548	\$805,351	\$766,461	\$26,696,933	\$26,329,009

Long-Term Debt. The District's long-term general obligation bonds outstanding at June 30, 2003 were \$14,183,032 a decrease of 8.23% over the previous year. Of that amount, the Kentucky SFCC has agreed to make a portion of the principal and interest under agreements previously described. Though the District is liable for the full amount of the bonds and the full amount is recorded on the financial statements, the SFCC has agreed to repay \$5,153,369 of the bonds leaving the District to pay \$9,106,631. There were no major changes in the District's other long-term obligations. The District has plans to issue approximately \$1.75 million in new bonds in the coming year for an addition to an elementary school.

During the fiscal year, the District issued \$1,920,000 of general obligation bonds to advance refund \$1,800,000 of outstanding 1993 bonds with interest rates of 5.10% to 5.125%. The new bonds interest rates range from 1.50% to 3.65%. This advance refunding will result in a savings of debt service payments over the next ten years of \$136,149.

The District's general obligation bonds are rated Aa3. The amount of total general obligation bonds that the District may issue is dependent upon the amount of resources in the SEEK Capital Outlay and FSPK Building Funds available for debt service. The state must approve the issuance of any new bonds of the District.

More detailed information about the District's long-term liabilities may be found in Note 6 to the financial statements.



OUTLOOK FOR THE FUTURE

The most crucial aspect in the financial future of the District is continued adequate funding from the state. The District's major source of revenue is state aid, primarily Kentucky SEEK funding. The state has cut SEEK funding at year-end in the past. Salaries and other expenditures are set at the beginning of the fiscal year and cannot be adjusted in the last months of the year. This could leave the District making expenditures based on SEEK funding estimates that are not ultimately fulfilled. Also, the state mandates salary increases and special programs that may not be fully funded by it.

The District has worked diligently on a long-term plan to accumulate funds for additional instructional programs and future construction. The expenditure of some of these funds has been postponed in fear that the monies could be needed to fund the normal operations of the District. The future construction is needed to provide for a growing enrollment and maintain facilities at their proper level. Additional instructional programs have proved useful in guiding the district towards student proficiency as mandated and measured by the state. These are multi-year commitments that the District must be assured of being able to financially fulfill before undertaking. While the District is on a sound financial foundation for the present time and near future, the long-range plans of the District, and the work that has gone into them to date, are in jeopardy without adequate funding from the state.

At the time of this writing, the state is projecting a large deficit in its general budget for the current biennium. With the District's tax base remaining flat and state limitations on the amount local taxes may be increased, the District is unable to fill the void of state funding cuts with local assessments. The District will continue to operate conservatively to assure that an unexpected deficit does not occur due to a sudden year-end cut in SEEK funding, while making every effort to maintain all facilities at their best operating level and providing innovative instructional services and opportunities to the students of Logan County.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, creditors, and other stakeholders with a general overview of the Logan County School District's accountability for the money it receives. Any questions about this report or requests for additional information should be directed to Danny L. Harris, CPA, Director of Finance, at Logan County School District, 2222 Bowling Green Road, P. O. Box 417, Russellville, KY 42276, or by calling (270) 726-2436.

Basic Financial Statements

LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2003

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash	\$ 10,946,350	\$ 502,081	\$ 11,448,431
Accounts receivable:			
Taxes	198,618	0	198,618
Accounts	45,404	0	45,404
Intergovernmental – state	78,337	0	78,337
Intergovernmental – federal	320,712	0	320,712
Inventory	0	35,464	35,464
Bond issuance costs	29,300	0	29,300
Less: accumulated amortization	(1,221)	0	(1,221)
Nondepreciable capital assets	594,388	0	594,388
Depreciable capital assets	36,103,858	1,470,572	37,574,430
Less: accumulated depreciation	(11,135,698)	(704,111)	(11,839,809)
TOTAL ASSETS	37,180,048	1,304,006	38,484,054
LIABILITIES			
Accounts payable	628,311	6,523	634,834
Accrued liabilities	320,318	540	320,858
Deferred revenue	190,072	0	190,072
Long-term obligations:			
Due within one year:			
Outstanding bonds	1,380,000	0	1,380,000
Accrued interest	148,105	0	148,105
Compensated absences	260,675	7,039	267,714
Other	39,718	0	39,718
Due beyond one year:			
Outstanding bonds	12,803,032	0	12,803,032
Compensated absences	385,569	5,829	391,398
Other	53,427	0	53,427
TOTAL LIABILITIES	16,209,227	19,931	16,229,158

See accompanying notes to the financial statements.

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
NET ASSETS			
Invested in capital assets, net of related debt . . .	11,286,371	766,461	12,052,832
Restricted for:			
Debt service	19,755	0	19,755
SFCC	762,986	0	762,986
Future construction	373,536	0	373,536
Unrestricted	8,528,173	517,614	9,045,787
TOTAL NET ASSETS	\$ 20,970,821	\$ 1,284,075	\$ 22,254,896

See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2003

		PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
GOVERNMENTAL ACTIVITIES								
Instruction	\$ 14,804,720	\$ 14,055	\$ 3,098,224	\$ 24,524	\$ (11,667,917)	\$ 0	\$ (11,667,917)	
Support Services:								
Student	499,619	0	44,409	0	(455,210)	0	(455,210)	
Instructional staff	972,312	0	283,071	0	(689,241)	0	(689,241)	
District administration	495,384	0	0	0	(495,384)	0	(495,384)	
School administration	939,508	0	6,051	0	(933,457)	0	(933,457)	
Business	163,387	0	0	0	(163,387)	0	(163,387)	
Plant operations and maintenance	1,850,549	565	28,511	0	(1,821,473)	0	(1,821,473)	
Student transportation	1,495,321	0	20,966	0	(1,474,355)	0	(1,474,355)	
Other	207,451	0	202,722	0	(4,729)	0	(4,729)	
Facilities acquisition and construction	17,262	0	0	742,087	724,825	0	724,825	
Interest on long-term debt	694,812	0	0	1,009,958	315,146	0	315,146	
TOTAL GOVERNMENTAL ACTIVITIES	22,140,325	14,620	3,683,954	1,776,569	(16,665,182)	0	(16,665,182)	

See accompanying notes to the financial statements.

BUSINESS-TYPE ACTIVITIES

Food services	1,396,421	643,520	845,426	0	0	92,525	92,525
TOTAL BUSINESS-TYPE ACTIVITIES	1,396,421	643,520	845,426	0	0	92,525	92,525
TOTAL SCHOOL DISTRICT	<u>\$ 23,536,746</u>	<u>\$ 658,140</u>	<u>\$ 4,529,380</u>	<u>\$ 1,776,569</u>	(16,665,182)	92,525	(16,572,657)

GENERAL REVENUES

Taxes:

Property	2,302,233	0	2,302,233
Motor vehicle	501,282	0	501,282
Utilities	1,041,358	0	1,041,358
Other	388,240	0	388,240
State aid	13,771,572	0	13,771,572
Investment earnings	367,007	11,747	378,754
Other	25,924	0	25,924

TOTAL GENERAL REVENUES	18,397,616	11,747	18,409,363
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CHANGE IN NET ASSETS	1,732,434	104,272	1,836,706
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NET ASSETS – BEGINNING	19,238,387	1,179,803	20,418,190
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NET ASSETS – ENDING	<u>\$ 20,970,821</u>	<u>\$ 1,284,075</u>	<u>\$ 22,254,896</u>
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See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2003

	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS				
Cash	\$ 9,756,171	\$ 0	\$ 1,190,179	\$ 10,946,350
Accounts receivable:				
Taxes	198,618	0	0	198,618
Accounts	45,404	0	0	45,404
Intergovernmental – state	0	78,337	0	78,337
Intergovernmental – federal	0	320,712	0	320,712
Due from other funds	101,114	0	0	101,114
TOTAL ASSETS	<u>\$ 10,101,307</u>	<u>\$ 399,049</u>	<u>\$ 1,190,179</u>	<u>\$ 11,690,535</u>

See accompanying notes to the financial statements.

**LIABILITIES
AND FUND BALANCES**

LIABILITIES

Accounts payable	\$ 539,191	\$ 55,218	\$ 33,902	\$ 628,311
Accrued liabilities	310,025	10,293	0	320,318
Due to other funds	0	101,114	0	101,114
Deferred revenue	0	190,072	0	190,072
TOTAL LIABILITIES	849,216	356,697	33,902	1,239,815

FUND BALANCES

Reserved for:				
Site based carryforward	7,231	0	0	7,231
Debt service	0	0	19,755	19,755
SFCC	0	0	762,986	762,986
Future construction	0	0	373,536	373,536
Unreserved	9,244,860	42,352	0	9,287,212
TOTAL FUND BALANCES	9,252,091	42,352	1,156,277	10,450,720
TOTAL LIABILITIES AND FUND BALANCES	\$ 10,101,307	\$ 399,049	\$ 1,190,179	\$ 11,690,535

See accompanying notes to the financial statements.

**LOGAN COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2003**

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS \$ 10,450,720

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in governmental funds. The cost of the
assets is \$36,698,246, and the accumulated depreciation is \$11,135,698. 25,562,548

Bond issuance costs are not financial resources and therefore are not reported
as assets in governmental funds. The cost of the asset is \$29,300 and the
accumulated amortization is \$1,221 28,079

Long-term liabilities, including bonds payable, are not due and payable in the
current period and therefore are not reported as liabilities in the funds. Long-term
liabilities at year-end consist of:

Bonds payable	(14,183,032)
Accrued interest of the bonds	(148,105)
Other	(93,145)
Compensated absences	<u>(646,244)</u>

TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES \$ 20,970,821

See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2003

	GENERAL FUND	SPECIAL REVENUE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
From local sources:				
Taxes:				
Property	\$ 1,913,496	\$ 0	\$ 388,737	\$ 2,302,233
Motor vehicle	501,282	0	0	501,282
Utilities	1,041,358	0	0	1,041,358
Other	388,240	0	0	388,240
Tuition and fees	1,055	0	0	1,055
Earnings on investments	338,195	922	28,812	367,929
Other local revenue	22,263	15,399	0	43,662
Intergovernmental – state	13,771,572	1,950,136	1,752,045	17,467,753
Intergovernmental – indirect federal	0	1,649,864	0	1,649,864
Intergovernmental – direct federal	17,226	44,486	0	61,712
Federal through intermediate sources	0	47,671	0	47,671
TOTAL REVENUES	17,994,687	3,708,478	2,169,594	23,872,759
EXPENDITURES				
Current:				
Instruction	10,956,266	3,328,802	0	14,285,068

See accompanying notes to the financial statements.

Support services:				
Student	448,664	44,409	0	493,073
Instructional staff	650,725	283,071	0	933,796
District administration	475,592	0	1,500	477,092
School administration	936,828	6,051	0	942,879
Business	154,697	0	0	154,697
Plant operations and maintenance	1,864,656	28,511	0	1,893,167
Student transportation	1,435,960	20,966	0	1,456,926
Other	5,674	202,722	0	208,396
Facilities acquisition and construction	41,949	0	208,532	250,481
Debt service:				
Principal	0	0	1,315,000	1,315,000
Interest	0	0	701,120	701,120
Bond issuance cost	0	0	29,320	29,320
TOTAL EXPENDITURES	16,971,011	3,914,532	2,255,472	23,141,015
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,023,676	(206,054)	(85,878)	731,744
OTHER FINANCING SOURCES (USES)				
Bond proceeds	0	0	1,903,861	1,903,861
Payment to refunded bond escrow agent	0	0	(1,874,541)	(1,874,541)
Operating transfers	(323,931)	23,602	300,329	0
TOTAL OTHER FINANCING SOURCES (USES)	(323,931)	23,602	329,649	29,320
NET CHANGE IN FUND BALANCE	699,745	(182,452)	243,771	761,064
FUND BALANCE – BEGINNING	8,552,346	224,804	912,506	9,689,656
FUND BALANCE – ENDING	\$ 9,252,091	\$ 42,352	\$ 1,156,277	\$ 10,450,720

See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2003

TOTAL NET CHANGE IN FUND BALANCE – GOVERNMENTAL FUNDS	\$	761,064
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Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$1,265,706) exceeds capital outlays (\$868,562) in the period.		(397,144)
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Repayment of bond principal and other debt obligations are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		1,380,615
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In the statement of activities, certain operating expenses - compensated absences (sick pay and vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation and sick leave earned (\$83,138) exceeded the amounts used (\$64,729) by (\$18,409)		(18,409)
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The proceeds for the issuance of refunding bonds provide current financial resources and are reported in the fund financial statements but they are presented as liabilities in the statement of net assets		(1,903,861)
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The payment to the escrow agent for refunded bonds is shown as a use of current resources in governmental funds, as a reduction of long-term liabilities in the statement of net assets.		1,874,541
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Expenditures reported in the fund financial statements are recognized when the current financial resource is used. However, expenses in the statement of activities are recognized when they are incurred.		35,628
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CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES	\$	<u>1,732,434</u>
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See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2003

		ENTERPRISE FUND FOOD SERVICE
ASSETS		
CURRENT ASSETS		
Cash	\$ 502,081	
Inventory	35,464	
TOTAL CURRENT ASSETS	537,545	
NON-CURRENT ASSETS		
Fixed assets – net	766,461	
TOTAL ASSETS	\$ 1,304,006	
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 6,523	
Accrued liabilities	540	
Compensated absences	7,039	
TOTAL CURRENT LIABILITIES	14,102	
LONG-TERM LIABILITIES		
Compensated absences	5,829	
TOTAL LIABILITIES	19,931	
NET ASSETS		
Invested in capital assets	766,461	
Unrestricted	517,614	
TOTAL NET ASSETS	1,284,075	
TOTAL LIABILITIES AND NET ASSETS	\$ 1,304,006	

See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2003

	ENTERPRISE FUND FOOD SERVICE
OPERATING REVENUES	
Lunchroom sales	\$ 643,520
TOTAL OPERATING REVENUES	<u>643,520</u>
OPERATING EXPENSES	
Salaries and wages	572,835
Contract services	23,963
Materials and supplies	592,466
Other operating expenses	153,601
Depreciation expense	53,556
TOTAL OPERATING EXPENSES	<u>1,396,421</u>
OPERATING LOSS	<u>(752,901)</u>
NON-OPERATING REVENUES (EXPENSES)	
State operating grants	73,364
Federal operating grants	681,034
Donated commodities	94,991
Loss on disposal of fixed assets	(3,963)
Interest revenue	11,747
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>857,173</u>
CHANGE IN NET ASSETS	104,272
TOTAL NET ASSETS – BEGINNING	<u>1,179,803</u>
TOTAL NET ASSETS – ENDING	<u><u>\$ 1,284,075</u></u>

See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2003

	ENTERPRISE FUND FOOD SERVICE
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 643,520
Cash payments to employees for services	(572,835)
Cash payments for contract services	(23,963)
Cash payments to suppliers for goods and services	(452,021)
Cash payments in other operating expenses	(153,601)
NET CASH USED IN OPERATING ACTIVITIES	(558,900)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Nonoperating grants received	754,398
NET CASH PROVIDED BY CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	754,398
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceed from sale of assets	227
Acquisition of capital assets	(18,856)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(18,629)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	11,747
NET CASH PROVIDED BY INVESTING ACTIVITIES	11,747
NET INCREASE IN CASH AND CASH EQUIVALENTS	188,616
CASH AND CASH EQUIVALENTS – BEGINNING OF THE YEAR	313,465
CASH AND CASH EQUIVALENTS – END OF THE YEAR	\$ 502,081

See accompanying notes to the financial statements.

**ENTERPRISE
FUND
FOOD SERVICE**

**RECONCILIATION OF OPERATING LOSS TO
NET CASH USED IN OPERATING ACTIVITIES**

Operating loss	\$ (752,901)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	53,556
Commodities used	94,991
Changes in assets and liabilities:	
Receivables	57,635
Inventories	(11,856)
Accounts payable	(2,897)
Accrued liabilities	540
Compensated absences	12,868
Deferred revenue	(10,836)
	<hr/>
NET CASH USED IN OPERATING ACTIVITIES	<u><u>\$ (558,900)</u></u>

See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2003

	AGENCY FUNDS	PRIVATE PURPOSE TRUST FUND
ASSETS		
ASSETS		
Cash	\$ 232,990	\$ 83,663
Accounts receivable	16,522	0
TOTAL ASSETS	<u>\$ 249,512</u>	<u>\$ 83,663</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 16,186	\$ 0
Due to student groups	233,326	0
	<u>249,512</u>	<u>0</u>
NET ASSETS		
Held in trust for scholarships	0	83,663
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 249,512</u>	<u>\$ 83,663</u>

See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2003

	PRIVATE PURPOSE TRUST FUNDS
ADDITIONS	
Earnings on investments	\$ 1,799
Other local revenue	26,175
	<u>27,974</u>
DEDUCTIONS	
Scholarships	<u>1,750</u>
CHANGE IN NET ASSETS	26,224
NET ASSETS – BEGINNING	<u>57,439</u>
NET ASSETS – ENDING	<u><u>\$ 83,663</u></u>

See accompanying notes to the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES**

● **Reporting Entity**

The Logan County Board of Education (the "Board"), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Logan County School District (the "District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Logan County School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Logan County School District Finance Corporation — The Logan County Board of Education resolved to authorize the establishment of the Logan County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Logan County Board of Education also comprise the Corporation's Board of Directors.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

● **Basis of Presentation**

Government-wide Financial Statements — The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements — Fund financial statements report detailed information about the District's funds, including fiduciary funds. Separate statements for each fund category — governmental, proprietary and fiduciary — are presented. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

• **Governmental Fund Types**

The *General Fund* is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. The General Fund is a major fund.

The *Special Revenue Funds* account for proceeds of specific revenue sources (other than debt service, enterprise funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the schedule of expenditures of federal awards included in this report. In addition, the Kentucky Education Technology System (KETS) allocation and local district matching funds are being recorded in the special revenue fund as required by the Kentucky Department of Education. These funds are restricted for the purchase of technology consistent with the District's approved technology plan. The Special Revenue Fund is a major fund.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

The *Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund* receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.

The *Facility Support Program of Kentucky Fund (FSPK)* accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds are restricted for use in financing projects identified in the District's facility plan.

The *Construction Fund* accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

The *Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost as required by Kentucky law.

• Proprietary Fund Types

Enterprise Fund

The *School Food Service Fund* is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

To the proprietary activities, the District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

• **Fiduciary Fund Types** (includes agency and trust funds)

Fiduciary funds account for assets held by the District in a trustees capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement.

Agency Funds

The *Activity Fund* accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

Private Purpose Trust Funds

The *Private Purpose Trust Fund* is used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

● **Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

The records of the Board are maintained and the budgetary process is based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the General Fund and Capital Projects Funds.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net assets.

The financial statements of the governmental fund types are on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The Proprietary Funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

● **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

● **Cash and Cash Equivalents**

The District considers demand deposits, money market funds and other highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

● **Inventory**

Supplies and materials are charged to expenditures when purchased (purchases method) with the exception of the Proprietary Funds, which records inventory at the lower of cost, determined by first-in first-out ("FIFO") method, or market.

● **Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

Description	Estimated Lives
Buildings and improvements	25–50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5–10 years
Audio-visual equipment	15 years
Food service equipment	10–12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

● **Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Compensated Absences**

The District uses the vesting method to compute compensated absences for sick leave. Sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits at termination. The District records a liability for accumulated unused sick leave time when earned for all employees with more than five years of service.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "*matured compensated absences payable*" in the funds from which the employees will be paid.

● **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the Government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Fund Equity**

Reservations of fund balance represent amounts that are not appropriable or legally segregated for a specific purpose. Reservations of net assets are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change.

● **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

● **Property Taxes**

Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September Board meeting. Assuming property tax bills are timely mailed, the collection date is the period from September 15 through December 31. Collections from the period September 15 through November 1 receive a two percent discount. The due date is the period from November 2 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien being filed by the County Attorney.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Revenues — Exchange and Nonexchange Transactions**

Revenues resulting from exchange transactions are where each party receives equal value. On the modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises after the period for which taxes are levied. Property taxes receivables are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September. On the modified accrual basis, assets and revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Revenues from nonexchange transactions must also be available before they can be recognized.

● **Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

● **Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

● **Contributions of Capital**

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

● **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the District, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the enterprise fund.

● **Investment Income**

Assets earning investment income in the Special Revenue Fund (except Kentucky Education Technology, KETS), FSPK fund and SEEK Capital Outlay Fund have assigned their investment earnings to the General Fund. The amount of investment income the General Fund received from this assignment was approximately \$10,322 for the year ended June 30, 2003.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 2: CHANGES IN ACCOUNTING PRINCIPLES AND
RESTATEMENT OF FUND BALANCE**

In June 1999, the Government Accounting Standards Board (GASB) issued Statement No. 34 *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* (GASB 34). Statement No. 34 makes significant changes in financial reporting. Subsequent to the issuance of GASB 34, GASB issued the following standards to be implemented at the same time GASB 34 is adopted; Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures* and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The District has implemented these standards effective July 1, 2002.

Statement No. 34, among other changes, adds two new "Government-Wide" (District-Wide) financial statements as basic financial statements required for all governmental units. The Statement of Net assets and the Statement of Activities are the two new required statements. Both statements are prepared on the full accrual basis. The government-wide financial statements split the District's programs between business-type and governmental activities. Previously, in accordance with accounting standards for governmental units, the District used the modified accrual basis of accounting for certain funds. The modified accrual basis of accounting continues to be the appropriate basis of accounting for governmental activity fund financial statements.

In addition, all funds are reported as governmental, proprietary or fiduciary funds. The definitions for these types of activities are discussed in other portions of Note 1.

Finally, all non-fiduciary funds are further classified as major or non-major funds. In reporting financial condition and results of operations for governmental units, the new standard concentrates on major funds versus non-major funds.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 2: CHANGES IN ACCOUNTING PRINCIPLES AND
RESTATEMENT OF FUND BALANCE (Continued)**

The restatement of the above changes and the transition from governmental fund balance to net assets of the governmental activities is presented below:

	General	Special Revenue	Nonmajor	Total
Fund equity, June 30, 2002	\$ 8,552,346	\$ 224,804	\$ 912,506	\$ 9,689,656
GASB 34 adjustments:				
Capital assets, net of depreciation				25,891,582
Long-term liabilities				(15,545,650)
Accrued compensated absences				(627,835)
Accrued interest payable				(169,366)
				<u>\$ 19,238,387</u>

The District had a fixed asset inventory taken to comply with GASB 34. This inventory revealed a difference in the proprietary fixed assets that was previously recorded. Changes as a result of the GASB 34 implementation are as follows:

	<u>School Food Service</u>
Fund equity, June 30, 2002	\$ 539,320
Change in fixed assets	<u>640,483</u>
Adjusted Fund Equity, June 30, 2002	<u>\$ 1,179,803</u>

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 3: CASH

● **Deposits**

At June 30, 2003, the carrying amounts of the District's deposits were \$11,765,084 and the bank balances were \$13,164,481, which was covered by federal depository insurance or by collateral held by the banks in the District's name.

The carrying amounts are reflected in the financial statements as follows:

Governmental funds	\$ 10,946,350
Proprietary funds	502,081
Fiduciary funds	<u>316,653</u>
	<u><u>\$ 11,765,084</u></u>

NOTE 4: INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2003 consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Special Revenue	<u><u>\$ 101,114</u></u>

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003 was as follows:

	Capital Cost			
	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:				
Capital assets that are not depreciated:				
Land	\$ 481,399	\$ 0	\$ 0	\$ 481,399
Construction in progress	0	112,989	0	112,989
Total Nondepreciable Historical Cost	481,399	112,989	0	594,388
Capital assets that are depreciated:				
Land improvements	735,533	37,054	0	772,587
Buildings and improvements	28,624,405	121,172	0	28,745,577
Technology equipment	2,302,893	348,569	(2,666)	2,648,796
Vehicles	3,236,799	171,357	0	3,408,156
General	383,211	145,531	0	528,742
Total Depreciable Historical Cost	35,282,841	823,683	(2,666)	36,103,858
Less accumulated depreciation for:				
Land improvements	406,876	22,856	0	429,732
Buildings and improvements	5,560,243	625,045	0	6,185,288
Technology equipment	1,441,312	361,005	(2,666)	1,799,651
Vehicles	2,266,953	219,411	0	2,486,364
General	197,274	37,389	0	234,663
Total Accumulated Depreciation	9,872,658	1,265,706	(2,665)	11,135,698
Total Depreciable Historical Cost, Net	25,410,183	(442,023)	0	24,968,160
Governmental Activities, Capital Assets, Net	\$ 25,891,582	\$ (329,034)	\$ 0	\$ 25,562,548

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 5: CAPITAL ASSETS (Continued)

	Capital Cost			
	Beginning Balance	Additions	Disposals	Ending Balance
Business-Type Activities:				
Capital assets that are depreciated:				
Buildings and improvements	\$ 792,679	\$ 0	\$ 0	\$ 792,679
Technology equipment	10,414	0	(1,889)	8,525
General	673,432	18,856	(22,920)	669,368
Total Depreciable Historical Cost	1,476,525	18,856	(24,809)	1,470,572
Less accumulated depreciation for:				
Buildings and improvements	\$ 184,034	\$ 15,854	\$ 0	\$ 199,888
Technology equipment	6,209	1,421	(1,889)	5,741
General	480,931	36,281	(18,730)	498,482
Total Accumulated Depreciation	671,174	53,556	(20,619)	704,111
Total Depreciable Historical Cost, Net	805,351	(34,700)	(4,190)	766,461
Business-Type Activities, Capital Assets, Net	\$ 805,351	\$ (34,700)	\$ (4,190)	\$ 766,461

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 933,350
Support services:	
Student	6,546
Instruction staff	47,751
District administration	26,506
School administration	12,992
Business	8,690
Plant operations and maintenance	15,830
Student transportation	209,752
Other	4,289
Total Depreciation Expense	\$ 1,265,706

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 6: GENERAL LONG-TERM OBLIGATIONS

The original amount of each issue, the issue date and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1993	\$ 3,455,000	5.10%—5.125%
1996	1,405,000	4.00%—5.00%
1997	4,090,000	3.80%—5.10%
1998	5,580,000	1.00%—4.125%
1998B	990,000	3.70%—4.00%
2000	1,875,000	5.25%—5.60%
2000B	2,830,000	4.55%—5.10%
2003	1,920,000	1.50%—3.65%

On January 29, 2003, the District issued \$1,920,000 in general obligation bonds with interest rates ranging from 1.50% to 3.65% to partially advance refund \$1,800,000 of outstanding 1993 bonds with interest rates ranging from 5.10% to 5.125%. The net proceeds of \$1,874,541 were used to purchase U.S. government securities. Those securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1993 bonds. As a result, \$1,800,000 of the 1993 bond issue is considered defeased and the liability has been removed from the government-wide statement of net assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt by \$75,982. The difference reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2005 using the effective-interest method. The District completed the advance refunding to reduce its total debt service payments over the next ten years by \$136,149 and to obtain an economic gain of \$115,840.

The District, through the General Fund, including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Funds, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Logan County School District Finance Corporation to construct school facilities. The District has

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 6: GENERAL LONG-TERM OBLIGATIONS
(Continued)

an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has entered into "participation agreements" with the School Facility Construction Commission (SFCC). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2003 for debt service (principal and interest) are as follows:

Year	Logan County School District		School Facility Construction Commission		Total Debt Service
	Principal	Interest	Principal	Interest	
2003—2004	\$ 601,029	\$ 416,567	\$ 778,971	\$ 219,688	\$ 2,016,255
2004—2005	619,045	389,284	815,955	186,321	2,010,605
2005—2006	640,814	360,991	839,186	151,311	1,992,302
2006—2007	480,138	336,122	634,862	116,289	1,567,411
2007—2008	498,209	317,163	456,791	89,509	1,361,672
2008—2009	521,343	296,584	293,657	69,674	1,181,258
2009—2010	543,185	274,550	306,815	57,882	1,182,432
2010—2011	561,086	250,974	203,914	45,450	1,061,424
2011—2012	551,774	225,768	128,226	37,084	942,852
2012—2013	570,425	199,960	134,575	31,618	936,578
2013—2014	443,367	171,868	76,633	25,809	717,677
2014—2015	469,839	148,452	80,161	22,062	720,514

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 6: GENERAL LONG-TERM OBLIGATIONS
(Continued)

Year	Logan County School District		School Facility Construction Commission		Total Debt Service
	Principal	Interest	Principal	Interest	
2015—2016	380,580	121,968	84,420	18,109	605,077
2016—2017	401,285	102,543	88,715	13,867	606,410
2017—2018	425,226	81,687	79,774	9,643	596,330
2018—2019	442,395	59,861	52,605	6,319	561,180
2019—2020	469,662	36,825	55,338	3,592	565,417
2020—2021	487,229	12,424	42,771	1,091	543,515
	<u>\$ 9,106,631</u>	<u>\$ 3,803,591</u>	<u>\$ 5,153,369</u>	<u>\$ 1,105,318</u>	<u>\$ 19,168,909</u>

Changes in long-term obligations are as follows:

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003	Amounts Due Within One Year
Government activities:					
Bonds and notes payable:					
General obligation debt . . .	\$ 15,455,000	\$ 1,920,000	\$ (3,115,000)	\$ 14,260,000	\$ 1,380,000
Less deferred issuance discounts and premiums	0	(14,698)	612	(14,086)	0
Less deferred amount on refundings	0	(75,982)	13,100	(62,882)	0
Total Bonds and Notes Payable	<u>15,455,000</u>	<u>1,829,320</u>	<u>(3,101,288)</u>	<u>14,183,032</u>	<u>1,380,000</u>
Other liabilities:					
Other	90,650	68,110	(65,615)	93,145	39,718
Compensated absences	627,835	83,138	(64,729)	646,244	260,675
Total Other Liabilities	<u>718,485</u>	<u>151,248</u>	<u>(130,344)</u>	<u>739,389</u>	<u>300,393</u>
Total Long-Term Liabilities	<u>\$ 16,173,485</u>	<u>\$ 1,980,568</u>	<u>\$ (3,231,632)</u>	<u>\$ 14,922,421</u>	<u>\$ 1,680,393</u>

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 7: PENSION PLANS

Plan Descriptions. The Logan County School District participates in the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky (KTRS) and the County Employees Retirement System, a component unit of the Commonwealth of Kentucky (CERS), cost-sharing multiple-employer defined benefit plans. KTRS and CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issues a publicly available financial report that includes financial statements and required supplementary information. KTRS' report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 or by calling (502) 573-3266. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

Funding Policy. KTRS and CERS plan members are required to contribute 9.855% and 5.00%, respectively, of their covered salary. The District is required to contribute to the CERS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS and CERS is 13.105% and 6.34% of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2003, 2002 and 2001 were \$203,587, \$196,978 and \$202,958, respectively, equal to the required contributions for each year.

The amount recognized for revenues and expenditures for on-behalf payments relating to fringe benefits for the year ended June 30, 2003 was \$2,947,949 for governmental funds and \$52,722 for proprietary funds.

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 8: CONTINGENCIES

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE 9: INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes workers' compensation insurance.

NOTE 10: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers'

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 10: RISK MANAGEMENT (Continued)

Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11: EXCESS EXPENDITURES OVER APPROPRIATIONS

The District has no funds with a deficit fund balance. However, the following funds had excess current year expenditures over current year appropriated revenues:

Fund	Amount
Special Revenue	\$ 182,452
Debt Service	1,470
SEEK Capital Outlay	22,431

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 12: FUND TRANSFERS

Fund transfers for the year ended June 30, 2003 consist of the following:

Type	From Fund	To Fund	Purpose	Amount
Operating	General	Special Revenue	Matching	\$ 23,602
Operating	General	Construction	Construction	186,163
Operating	General	Debt Service	Debt Service	114,166
Operating	Capital Outlay	Construction	Construction	100,162
Operating	Capital Outlay	Debt Service	Debt Service	230,272
Operating	FSPK	Debt Service	Debt Service	659,881
Operating	FSPK	Construction	Construction	168,226

Required Supplemental
Information

LOGAN COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2003

	BUDGETED AMOUNTS			VARIANCES FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL (GAAP BASIS)	FINAL TO ACTUAL
REVENUES				
Local and intermediate sources	\$ 3,519,304	\$ 3,519,304	\$ 4,205,889	\$ 686,585
State programs	10,873,748	11,207,286	13,771,572	2,564,286
Federal programs	10,000	10,000	17,226	7,226
TOTAL REVENUES	14,403,052	14,736,590	17,994,687	3,258,097
EXPENDITURES				
Current:				
Instruction	10,254,481	10,400,212	10,956,266	(556,054)
Support services:				
Student	444,758	444,758	448,664	(3,906)
Instructional staff	746,037	746,037	650,725	95,312
District administration	3,445,921	3,448,371	475,592	2,972,779
School administration	941,563	941,563	936,828	4,735
Business	208,582	209,316	154,697	54,619
Plant operations and maintenance	1,946,205	1,946,039	1,864,656	81,383
Student transportation	1,315,507	1,319,267	1,435,960	(116,693)
Other	6,500	6,500	5,674	826
Facilities acquisition and construction	3,342,000	3,348,017	41,949	3,306,068
Debt service	114,166	114,166	0	114,166
TOTAL EXPENDITURES	22,765,720	22,924,246	16,971,011	5,953,235

EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(8,362,668)</u>	<u>(8,187,656)</u>	<u>1,023,676</u>	<u>9,211,332</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers	<u>(156,248)</u>	<u>(331,260)</u>	<u>(323,931)</u>	<u>7,329</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(156,248)</u>	<u>(331,260)</u>	<u>(323,931)</u>	<u>7,329</u>
NET CHANGE IN FUND BALANCE	<u>(8,518,916)</u>	<u>(8,518,916)</u>	<u>699,745</u>	<u>9,218,661</u>
FUND BALANCES – BEGINNING	<u>8,518,916</u>	<u>8,518,916</u>	<u>8,552,346</u>	<u>33,430</u>
FUND BALANCES – ENDING	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 9,252,091</u></u>	<u><u>\$ 9,252,091</u></u>

EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES

Inflows/revenues:

 Actual amounts (budgetary basis) \$ 15,444,099

Differences — budget to GAAP:

 On-behalf payments recorded under GAAP basis not included in budget amounts 2,550,588

**Total Revenues as Reported on Statement of Revenues, Expenditures and Changes
in Fund Balances — Governmental Funds**

\$ 17,994,687

Outflows/expenditures:

 Actual amounts (budgetary basis) \$ 14,420,423

Differences — budget to GAAP:

 On-behalf payments recorded under GAAP basis not included in budget amounts 2,550,588

**Total Expenditures as Reported on the Statement of Revenues, Expenditures and Changes
in Fund Balances — Governmental Funds**

\$ 16,971,011

Supplemental Information

LOGAN COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2003

	DEBT SERVICE FUND	SEEK FUND	FSPK FUND	CONSTRUCTION FUND	TOTAL OTHER GOVERNMENTAL FUNDS
ASSETS					
Cash	\$ 19,755	\$ 155,188	\$ 607,798	\$ 407,438	\$ 1,190,179
TOTAL ASSETS	\$ 19,755	\$ 155,188	\$ 607,798	\$ 407,438	\$ 1,190,179
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 0	\$ 0	\$ 0	\$ 33,902	\$ 33,902
TOTAL LIABILITIES	0	0	0	33,902	33,902
FUND BALANCES					
Reserved for:					
Debt service	19,755	0	0	0	19,755
SFCC	0	155,188	607,798	0	762,986
Future construction	0	0	0	373,536	373,536
TOTAL FUND BALANCES	19,755	155,188	607,798	373,536	1,156,277
TOTAL LIABILITIES AND FUND BALANCES	\$ 19,755	\$ 155,188	\$ 607,798	\$ 407,438	\$ 1,190,179

LOGAN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2003

	<u>DEBT SERVICE FUND</u>	<u>SEEK FUND</u>	<u>FSPK FUND</u>	<u>CONSTRUCTION FUND</u>	<u>TOTAL OTHER GOVERNMENTAL FUNDS</u>
REVENUES					
From local sources:					
Taxes:					
Property	\$ 0	\$ 0	\$ 388,737	\$ 0	\$ 388,737
Earnings on investments	373	4,723	18,499	5,217	28,812
Intergovernmental — state	1,009,958	303,580	438,507	0	1,752,045
TOTAL REVENUES	<u>1,010,331</u>	<u>308,303</u>	<u>845,743</u>	<u>5,217</u>	<u>2,169,594</u>
EXPENDITURES					
Current:					
Support service:					
District administration	0	300	1,200	0	1,500
Facilities acquisition and construction	0	0	0	208,532	208,532
Debt service:					
Principal	1,315,000	0	0	0	1,315,000
Interest	701,120	0	0	0	701,120
Bond issuance cost	29,320	0	0	0	29,320
TOTAL EXPENDITURES	<u>2,045,440</u>	<u>300</u>	<u>1,200</u>	<u>208,532</u>	<u>2,255,472</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,035,109)</u>	<u>308,003</u>	<u>844,543</u>	<u>(203,315)</u>	<u>(85,878)</u>

OTHER FINANCING SOURCES (USES)

Bond proceeds	1,903,861	0	0	0	1,903,861
Payment to refunded bond escrow agent	(1,874,541)	0	0	0	(1,874,541)
Operating transfers	1,004,319	(330,434)	(828,107)	454,551	300,329
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,033,639</u>	<u>(330,434)</u>	<u>(828,107)</u>	<u>454,551</u>	<u>329,649</u>
NET CHANGE IN FUND BALANCE	(1,470)	(22,431)	16,436	251,236	243,771
FUND BALANCE, BEGINNING	<u>21,225</u>	<u>177,619</u>	<u>591,362</u>	<u>122,300</u>	<u>912,506</u>
FUND BALANCES, ENDING	<u><u>\$ 19,755</u></u>	<u><u>\$ 155,188</u></u>	<u><u>\$ 607,798</u></u>	<u><u>\$ 373,536</u></u>	<u><u>\$ 1,156,277</u></u>

LOGAN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL SCHOOL ACTIVITY FUNDS
ALL AGENCY FUNDS
For the Year Ended June 30, 2003

	BALANCE JULY 1, 2002	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2003
ASSETS				
Cash	\$ 210,017	\$ 783,880	\$ 760,907	\$ 232,990
Accounts receivable	8,381	16,522	8,381	16,522
TOTAL ASSETS	<u>\$ 218,398</u>	<u>\$ 800,402</u>	<u>\$ 769,288</u>	<u>\$ 249,512</u>
LIABILITIES				
Accounts payable	\$ 8,290	\$ 16,186	\$ 8,290	\$ 16,186
Due to other funds	1,387	0	1,387	0
Due to student groups	208,721	784,216	759,611	233,326
TOTAL LIABILITIES	<u>\$ 218,398</u>	<u>\$ 800,402</u>	<u>\$ 769,288</u>	<u>\$ 249,512</u>

LOGAN COUNTY SCHOOL DISTRICT
STATEMENT OF ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
LOGAN COUNTY HIGH SCHOOL
June 30, 2003

	CASH BALANCE JUNE 30, 2003	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	FUND BALANCE JUNE 30, 2003
Art	\$ 26	\$ 0	\$ 0	\$ 26
Art Club	209	0	0	209
Athletics	345	11,237	0	11,582
Baseball	5,519	0	0	5,519
Beta Club	27	0	0	27
Business and Office	256	0	0	256
Book	1,618	0	0	1,618
Bookstore	979	425	486	918
Boys Basketball	271	0	332	(61)
Girls Basketball	4,471	0	0	4,471
Cheerleading	302	0	0	302
Chemistry Club	252	0	0	252
Computer/Wells	437	0	0	437
Cross Country	184	0	0	184
Drama/Speech	442	0	92	350
English/Harper	243	0	0	243
English/Ferguson	849	0	0	849
English/Mohon	85	0	0	85
FBLA Club	1,119	134	827	426
FCA Club	774	0	0	774
FFA Club	3,006	1,065	509	3,562
FCCLA Club	586	0	47	539
Football	481	0	0	481
Friends of Library	135	0	0	135
General	12,379	160	1,188	11,351
General #1/Coke Lance	200	253	178	275
General #2/Coke	6,258	1,872	2,164	5,966
Golf	1,269	0	0	1,269
Greenhouse	16,965	0	966	15,999

	CASH BALANCE JUNE 30, 2003	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	FUND BALANCE JUNE 30, 2003
Home Ec B	160	0	0	160
Home Ec C	1,603	0	140	1,463
Home Ec D	931	0	0	931
Ind. Arts	64	0	0	64
Interact Club	20	0	0	20
JROTC	174	0	0	174
JROTC Club	1,988	0	0	1,988
KTSA Club	197	0	0	197
LCYSC	37	0	0	37
Library	459	0	0	459
Lost Book	57	0	0	57
Math	224	0	0	224
Pep Club	1,131	0	0	1,131
Pride	781	0	0	781
Project Graduation	2,497	534	2,546	485
Region IV FCCLA	1,075	0	0	1,075
SAP/Botula	50	0	0	50
Science Club	8	0	0	8
Science/Myers	1	0	0	1
Softball	3,979	500	120	4,359
Spanish Club	1,494	83	0	1,577
Spanish/Myers	4	0	0	4
Student Council	1,799	0	0	1,799
Swim Team	467	0	0	467
Tennis	212	0	0	212
Track	52	0	0	52
Vo. Ag.	1,788	0	174	1,614
Volleyball	3,414	0	1,355	2,059
Yearbook	22,029	0	725	21,304
TOTAL	<u>\$ 106,382</u>	<u>\$ 16,263</u>	<u>\$ 11,849</u>	<u>\$ 110,796</u>

LOGAN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2003

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE			
Passed-Through State Department of Education:			
School Breakfast Program	10.553	0575-00-05	\$ 188,519
National School Lunch Program	10.555	0575-00-02	492,515
Passed-Through State Department of Agriculture:			
Food Distribution Program	10.555	—	94,991
TOTAL U.S. DEPARTMENT OF AGRICULTURE			776,025
U.S. DEPARTMENT OF EDUCATION			
Foreign Language Incentive	84.294	—	2,968
Passed-Through State Department of Education:			
Title I — 2003	84.010	0531-03-01	523,363
Title I — 2002	84.010	0531-02-01	88,835
Migrant Education Basic State Grant — 2002	84.011	—	4,963
Migrant Education Basic State Grant — 2003	84.011	—	24,159
Title VI — Innovative Education Program Strategies — 2002	84.298	—	576
Title V — Innovative Program Strategies — 2003	84.298	—	46,907
Title II — Dwight D. Eisenhower PD — 2002	84.281	0530-02-02	3,661
IDEA — Part B Special Education — 2003	84.027	0581-03-02	529,901
IDEA — Part B Preschool — 2003	84.173	0587-03-02	100,907
Title III	84.365	—	628
Title VI — Class Size Reduction Program — 2003	84.340	—	224
Teacher Quality — 2003	84.281	—	159,423
Title IV — Safe & Drug Free Schools — 2003	84.186	0530-03-02	4,726
Title IV — Safe & Drug Free Schools — 2002	84.186	0530-02-02	14,389
Goals 2000: EAA — School Reform — 2001	84.276	—	38,415
Federal Ed. Tech — 2003	84.318X	—	10,960
Vocational Education — Carryforward — 2003	84.048	5462-02-32	740
Vocational Education — Basic — 2003	84.048	5462-03-32	34,854
Workforce Incentive Grant	17.255	—	47,671
Passed-Through State Workforce Cabinet:			
Adult Education — Development Funds — 2003	84.002	—	18,651
Adult Education — Basic — 2003	84.002	—	40,432
Adult Education — Professional Staff Development — 2003	84.002	—	3,150
TOTAL U.S. DEPARTMENT OF EDUCATION			1,700,503

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF DEFENSE			
ROTC — 2003	12.000	—	<u>41,230</u>
TOTAL U.S. DEPARTMENT OF DEFENSE			<u>41,230</u>
U.S. DEPARTMENT OF JUSTICE OFFICE OF JUVENILE JUSTICE AND DELINQUENCY PREVENTION			
Passed-Through State Department of Education:			
DJJ Truancy Reduction Grant	16.549	—	<u>288</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>288</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 2,518,046</u></u>

LOGAN COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
For the Year Ended June 30, 2003

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of ***Logan County School District*** and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

LOGAN COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2003

None



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for School District Audits
Members of the Board of Education
Logan County School District
Russellville, Kentucky

We have audited the financial statements of **Logan County School District** (the "District") as of and for the year ended June 30, 2003, and have issued our report thereon dated October 13, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements* and Appendix II of the *Independent Auditors' Contract—State Audit Requirements* and Appendix III of the *Independent Auditors' Contract—Electronic Submission*.

● **Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Appendix II of the *Independent Auditors' Contract—State Audit Requirements*.

● **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated October 13, 2003.

This report is intended solely for the information and use of the members of the Board, Kentucky State Committee for School District Audits, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Russellville, Kentucky
October 13, 2003



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Kentucky State Committee for School District Audits
Members of the Board of Education
Logan County School District
Russellville, Kentucky

● **Compliance**

We have audited the compliance of **Logan County School District** (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements* and Appendix II of the *Independent Auditors' Contract—State Audit Requirements* and Appendix III of the *Independent Auditors' Contract—Electronic Submission*. Those standards

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and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

● **Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the members of the Board, Kentucky State Committee for School District Audits, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Russellville, Kentucky
October 13, 2003

LOGAN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2003

SECTION I — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None reported

Type of auditors' report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☐ Yes ☒ No

LOGAN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 1998

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553 / 10.555	Child Nutrition Cluster
84.027	IDEA B — Basic
84.173	IDEA B — Preschool
84.367	Improving Teacher Quality

Dollar threshold used to distinguish
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

SECTION II — FINANCIAL STATEMENT FINDINGS

Summary

None

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Summary

None



Kentucky State Committee for School District Audits
Members of the Board of Education
Logan County School District
Russellville, Kentucky

In planning and performing our audit of the financial statements of **Logan County School District** (the "District") for the year ended June 30, 2003, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. Any uncorrected comments from the prior year have been listed in this letter. A separate report dated October 13, 2003 contains our report on the District's internal control. This letter does not affect our report dated October 13, 2003 on the financial statements of the District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and recommendations with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Holland CPAs, PSC

Russellville, Kentucky
October 13, 2003

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LOGAN COUNTY SCHOOL DISTRICT
COMMENTS AND RECOMMENDATIONS
For the Year Ended June 30, 2003

● **Activity Funds — Individual Schools**

T Auburn Elementary School

- During the review of the school's receipts, we noted the receipt numbers were out of sequence based on the dates of receipt. We suggest the central fund treasurer always issue a receipt immediately upon receipt of money in numeric sequence.
- While testing disbursements, we noted one activity fund has a negative fund balance. After accounts receivables and accounts payables are recorded, no activity fund should have a negative fund balance. We recommend the balances in each account be watched closely to prevent further occurrences.
- During our review of all the schools' activity funds, we noted some operational expenses that should have been paid with money from the District. Instead, they were expended through the "principal's" activity funds. We recommend that only money from the District be used to pay for the operational expenses. Student generated monies should only be used to benefit the students as defined in the activity funds handbook.

T Logan County High School

- During our review of purchase orders, we noted receiving documents are not signed when merchandise is received on a consistent basis. We recommend that a receiving report be completed at the time merchandise is received or document the receipt of merchandise on supporting documents.
- While testing disbursements, we noted one activity fund has a negative fund balance. After accounts receivables and accounts payables are recorded, no activity fund should have a negative fund balance. We recommend the balances in each account be watched closely to prevent further occurrences.
- The school is currently using a money market account to invest excess cash. Investment yields would improve if excess cash was invested in a certificate of deposit or close the money market account into the checking account and utilize the central office's investments arrangement at a local bank.

LOGAN COUNTY SCHOOL DISTRICT
COMMENTS AND RECOMMENDATIONS (CONTINUED)
For the Year Ended June 30, 2003

T Olmstead Elementary School

- During the review of the school's receipts, we noted the deposit slips were unavailable and had been destroyed. The deposit slips should be retained for at least three years.

● **Central Office**

T Payroll

- The payroll clerk maintains the payroll master file, enters time sheet amounts, and prepares and signs payroll checks. This allows the payroll clerk to have access to the complete payroll cycle. We suggest procedures should be reviewed to find ways to reduce the risk over the payroll cycle.

T Disbursements

- In reviewing the disbursement cycle, we noted one individual has access to purchase orders, maintains the vendor master files, posts to the accounting system, processes checks for payment and mails vendor payments. The accounts payable system would be strengthened if some other individual who is independent of the disbursement cycle maintains the vendor master files.

LOGAN COUNTY BOARD OF EDUCATION

P. O. BOX 417

2222 BOWLING GREEN ROAD

RUSSELLVILLE, KENTUCKY 42276

Marshall H. Kemp, Superintendent

Phone (270) 726-2436 FAX (270) 726-8892

October 13, 2003

Kentucky Department of Education
Division of Finance
Capital Plaza Tower, 15th Floor
500 Mero Street
Frankfort, KY 40601

RE: Logan County School District
Letter of Comments and Recommendations
Audit of FYE June 30, 2003

Ladies / Gentlemen:

As noted in the audit report, there were no material weaknesses, reportable conditions, instances of noncompliance, or questioned costs discovered in the audit of the financial statements of the Logan County School District for the fiscal year ended June 30, 2003. The auditor's *Letter of Comments and Recommendations* describes opportunities for strengthening internal controls and operating efficiency.

Following are the procedures to institute the recommendations and corrective actions to be taken or already established:

Auburn Elementary School

The instances noted of receipt numbers out of sequence were during the first part of the year before changes were instituted. All schools have been instructed to issue receipts immediately upon receipt of money. The school has been instructed to closely watch activity fund account balances to prevent negative fund balances. The payment of an operational expense (lawn mower gasoline) from an activity account was an oversight and the school has been instructed to forward operational expense bills to the District office for payment.

Logan County High School

The school has been instructed to document the receipt of merchandise before processing any bills for payment. They have also been instructed to closely watch activity fund account balances to prevent negative fund balances. The school has consolidated accounts into one checking account to utilize the advantage of investment arrangements of the District's accounts.

Olmstead Elementary School

The school has been instructed to maintain duplicate initialed and dated deposit slips on hand for three years.

District

Payroll — The District is currently undertaking plans for restructuring the duties of the payroll clerk and personnel department. While making those plans, consideration will be given to ways of improving controls over the payroll cycle to reduce risk.

Disbursements — The District is making arrangements to have a person independent of the disbursement cycle maintain the vendor master files.

If there are any questions on the comments or corrective actions, or if any other information is needed, please feel free to call upon me.

Sincerely,

s/ *Danny L. Harris*

Danny L. Harris, CPA
Finance Officer

CC: Holland, CPAs



Kentucky State Committee for School District Audits
Members of the Board of Education
Logan County School District
Russellville, Kentucky

We have audited the financial statements of ***Logan County School District*** (the "District") for the year ended June 30, 2003, and have issued our report thereon dated October 13, 2003. Professional standards require that we provide you with the following information related to our audit.

- **Our Responsibility Under Auditing Standards Generally Accepted in the United States of America, Government Auditing Standards, OMB Circular A-133 and Procedures for Auditing Local School Districts' Fiscal Records**

As stated in our engagement letter dated July 1, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

- **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in *Note 1* to the financial statements. As described in *Note 2* to the financial statements, the District changed accounting policies related to financial reporting by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 34 as of July 1, 2002. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the financial statements. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you or transactions for which there is a lack of authoritative guidance or consensus.

- **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

- **Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures.

These adjustments may include those proposed by us but not recorded by the District that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. Our proposed audit adjustments, that were in our judgment either individually or in the aggregate, which had a significant effect on the District's financial reporting process were recorded by the District. We would be glad to discuss the nature of these adjustments with you.

- **Disagreements With Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

- **Consultations With Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants, except for the recording of compensated absences, which a GASB technical manager was contacted by the District's finance officer.

- **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

- **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the members of the Board of Education, Kentucky State Committee for School District Audits and management of ***Logan County School District*** and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC